



House of Representatives

File No. 758

General Assembly

January Session, 2007

(Reprint of File No. 558)

Substitute House Bill No. 7385
As Amended by House Amendment
Schedule "A"

Approved by the Legislative Commissioner
May 4, 2007

AN ACT CONCERNING SCHOOL CONSTRUCTION BOND MATURITY.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 7-380c of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective July 1, 2007*):

3 (a) Notwithstanding the provisions of sections 7-234, 7-236, 7-263
4 and 7-371 or any other public or special act or charter or ordinance or
5 resolution which limits or imposes conditions on the final maturity of,
6 or the due date of the last sinking fund payment for, bonds issued by
7 any municipality, as defined in section 7-369, for the purpose of
8 acquisition or construction of all or any part of a sewerage system, as
9 those terms are defined in section 7-245, or for the acquisition,
10 construction, extension, enlargement or maintenance of a municipal
11 water supply system or the extension of water mains, the last
12 installment of any series of such bonds shall mature, or the last sinking
13 fund payment for such series of bonds shall be due, not later than forty
14 years from the date of issue of such series, provided that such bonds
15 are issued in conjunction with a water or waste facility loan from the

16 United States Department of Agriculture pursuant to Subtitle A of the
17 Consolidated Farm and Rural Development Act, Title III of P.L. 87-128
18 (7 USC 1922 et seq.) or Section 2322 of the Food, Agriculture,
19 Conservation, and Trade Act of 1990, Title XXIII of P.L. 101-624 (7 USC
20 1926-1) as from time to time amended, and any regulations
21 promulgated thereunder.

22 (b) Notwithstanding the provisions of section 7-371, or any other
23 public or special act or charter or ordinance or resolution which limits
24 or imposes conditions on the final maturity of, or the due date of the
25 last sinking fund payment for, bonds issued by any municipality for a
26 school building project, the last installment of any series of such bonds
27 shall mature, or the last sinking fund payment for such series of bonds
28 shall be due, not later than thirty years from the date of issue of such
29 series. For purposes of this subsection, "school building project" means
30 the construction, purchase, extension, replacement, renovation or
31 major alteration of a building to be used for public school purposes,
32 including the equipping and furnishing of such construction,
33 purchase, extension, replacement, renovation or major alteration, the
34 improvement of land therefor the improvement of the site of an
35 existing building for public school purposes or the purchase cost of a
36 site for public school purposes. "School building project" does not
37 include any project authorized by the General Assembly pursuant to
38 chapter 173 prior to July 1, 1996, or the purchase of equipment or the
39 minor alteration or improvement of a building, land or site to be used
40 for public school purposes, unless such purchase, minor renovation,
41 alteration or improvement is in conjunction with a project that
42 otherwise qualifies as a school building project.

43 Sec. 2. Section 7-378a of the general statutes is repealed and the
44 following is substituted in lieu thereof (*Effective July 1, 2007*):

45 Notwithstanding the provisions of sections 7-264 and 7-378, and any
46 other public or special act or charter which limits the renewal of
47 temporary notes issued in anticipation of the receipt of the proceeds of
48 bond issues to two years or any lesser period of time from the date of

49 the original notes, any municipality, as defined in section 7-369, may
50 renew any temporary notes for a period of not more than eight years
51 from the date of the original issue of such temporary notes if the
52 municipality promptly applies all project grant payments toward
53 project costs or toward payment of such temporary notes as the same
54 shall become due and payable or deposits such grants in trust for such
55 purposes and if the legislative body of such municipality (1) authorizes
56 the inclusion in the annual budget for each year or otherwise
57 appropriates sufficient sums, from funds other than project grants or
58 note proceeds, to retire notes equal to at least one-twentieth of the
59 town's estimated net cost of the project no later than three years from
60 the date of the original issue of such temporary notes and again for
61 each subsequent year during which such temporary notes remain
62 outstanding; (2) reduces the principal amount of each bond issue when
63 sold by the amount spent under subdivision (1) of this section, and
64 provides for the payment or amortization of the principal of such
65 bonds in annual installments commencing no later than nine years
66 from the date of original issue of the temporary notes being
67 permanently financed by such bonds; (3) reduces the maximum
68 authorized term of the bonds when sold by not less than the number of
69 months by which the date of issue exceeds two years from the date of
70 the original notes. For sewer projects or school building projects, as
71 defined in section 7-380c, as amended by this act, the annual payments
72 required under said subdivision (1) shall be at least one-thirtieth of the
73 town's estimated net cost of [the] such sewer or school building
74 project. Any federal or state grants which are to be paid over a period
75 of years to reimburse the municipality for a portion of principal due on
76 bonds or notes may be used in computing the municipality's net cost of
77 the project. That portion of the proceeds of the issue of any such
78 temporary notes being issued as part of a common sale, which portion
79 is not used to refund outstanding temporary notes, shall be deemed a
80 separate loan and be considered to have a separate original issue date.
81 Each such portion of any such temporary notes may be renewed in
82 accordance with the provisions of this section.

83 Sec. 3. Subsection (a) of section 10-56 of the general statutes is
84 repealed and the following is substituted in lieu thereof (*Effective July*
85 *1, 2007*):

86 (a) A regional school district shall be a body politic and corporate
87 with power to sue and be sued; to purchase, receive, hold and convey
88 real and personal property for school purposes; and to build, equip,
89 purchase, rent, maintain or expand schools. Such district may issue
90 bonds, notes or other obligations in the name and upon the full faith
91 and credit of such district and the member towns to acquire land,
92 prepare sites, purchase or erect buildings and equip the same for
93 school purposes, if so authorized by referendum. Such referendum
94 shall be conducted in accordance with the procedure provided in
95 section 10-47c except that any person entitled to vote under section 7-6
96 may vote and the question shall be determined by the majority of those
97 persons voting in the regional school district as a whole. The exercise
98 of any or all of the powers set forth in this section shall not be
99 construed to be an amendment of a regional plan pursuant to said
100 section 10-47c. A regional board of education may expend any
101 premium in connection with such issue, interest on the proceeds of
102 such issue or unused portion of such issue to add to the land or
103 buildings erected or purchased and for the purchasing and installing
104 of equipment for the same. Such bonds, notes or other obligations shall
105 be issued as either serial or term bonds or both, in registered form or
106 with coupons attached, registrable as to principal and interest or as to
107 principal alone, shall be signed by the chairman and the treasurer of
108 the regional board of education and shall mature at such time or times,
109 or contain provisions for mandatory amortization of principal at such
110 time or times, be issued at such discount or bear interest at such rate or
111 rates payable at such time or times, or contain provisions for the
112 method or manner of determining such rate or rates or time or times at
113 which interest is payable, and contain such provisions for redemption
114 before maturity at the option of the issuer or at the option of the holder
115 thereof at such price or prices and under such terms and conditions as
116 shall be determined by such board, or by such officer or body to whom

117 the regional board of education delegates the authority to make such
118 determinations, provided that any serial bonds, notes or other
119 obligations shall be so arranged to mature in annual or semiannual
120 installments of principal that shall substantially equalize the aggregate
121 amount of principal and interest due in each annual period
122 commencing with the first annual period in which an installment of
123 principal is due or maturing in annual or semiannual installments of
124 principal no one of which shall exceed by more than fifty per cent the
125 amount of any prior installment, and any term bonds, notes or other
126 obligations, shall be issued with mandatory deposit of sinking fund
127 payments into a sinking fund of amounts sufficient to redeem or
128 amortize the principal of the bonds in annual or semiannual
129 installments that shall substantially equalize the aggregate amount of
130 principal redeemed or amortized and interest due in each annual
131 period commencing with the first annual period in which a mandatory
132 sinking fund payment becomes due, or sufficient to redeem or
133 amortize the principal of the bonds in annual or semiannual
134 installments no one of which shall exceed by more than fifty per cent
135 the amount of any installment. The first installment of any series of
136 bonds shall mature or the first sinking fund payment of any series of
137 bonds shall be due not later than three years from the date of issue of
138 such series and the last installment of such series shall mature or the
139 last sinking fund payment of such series shall be due not later than
140 twenty years therefrom for any grant commitment authorized by the
141 General Assembly pursuant to chapter 173 prior to July 1, 1996, and
142 not later than thirty years therefrom for any grant commitment
143 authorized by the General Assembly pursuant to said chapter on or
144 after July 1, 1996. Such bonds, notes or other obligations when
145 executed, issued and delivered, shall be general obligations of such
146 district and the member towns, according to their terms.

147 Sec. 4. Subsection (c) of section 10-56 of the general statutes is
148 repealed and the following is substituted in lieu thereof (*Effective July*
149 *1, 2007*):

150 (c) When a district has been authorized to issue general obligation

151 bonds, notes or other obligations as provided by this section, the board
152 may authorize, for a period not to exceed eight years, the issue of
153 temporary notes in anticipation of the receipt of the proceeds from the
154 sale of such bonds. Notes issued for a shorter period of time may be
155 renewed by the issue of other notes, provided the period from the date
156 of the original notes to the maturity of the last notes issued in renewal
157 thereof shall not exceed eight years. The term of such notes shall not be
158 included in computing the time within which such bonds shall mature,
159 provided such term does not exceed four years. For any series of notes
160 the term of which is extended past the fourth year, the provisions of
161 section 7-378a, as amended by this act, providing for the retirement
162 from budgeted funds of one-twentieth, or one-thirtieth, as applicable,
163 of the net project cost, the reduction of the term of the bonds when
164 sold and the commencement of the first principal payment of such
165 bonds, shall apply with respect to each year beyond the fourth that the
166 notes are outstanding. The provisions of section 7-373 shall be deemed
167 to apply to such notes. The board, or such officer or body to whom the
168 board delegates the authority to make such determinations, shall
169 determine the date, maturity, interest rate, form, manner of sale and
170 other terms of such notes which shall be general obligations of the
171 regional school district and member towns. Such notes may bear
172 interest or be sold at a discount. The interest or discount on such notes
173 and any renewals thereof and the expense of preparing, issuing and
174 marketing them may be included as a part of the cost of the project for
175 the financing of which such bonds were authorized. Upon the sale of
176 such bonds, the board shall apply immediately the proceeds thereof, to
177 the extent required, to the payment of the principal and interest of all
178 notes issued in anticipation thereof or deposit the proceeds in trust for
179 such purpose with a bank or trust company, which may be the bank or
180 trust company, if any, at which such notes are payable.

181 Sec. 5. Section 10-60a of the general statutes is repealed and the
182 following is substituted in lieu thereof (*Effective July 1, 2007*):

183 Any regional school district which has issued any bonds, notes or
184 other obligations pursuant to any general statute or special act may

185 issue refunding bonds for the purpose of paying, funding or refunding
186 prior to maturity all or any part of such district's bonds, notes or other
187 obligations, the redemption premium, if any, with respect thereto, the
188 interest thereon, the costs with respect to the issuance of such
189 refunding bonds and the payment of such refunded bonds, notes or
190 other obligations. Such refunding bonds shall mature not later than (1)
191 in the case of a single series of bonds, notes or other obligations being
192 refunded, the final maturity date thereof; and (2) in the case of
193 multiple series of bonds, notes or other obligations being refunded, the
194 final maturity date of any such series last to occur. Such refunding
195 bonds shall be authorized, and the proceeds thereof appropriated for
196 the purposes permitted under this section, by resolution of the regional
197 board of education and shall be issued in the same manner, and shall
198 be subject to the same limitations and requirements, other than those
199 requirements with respect to the manner of authorization of the bonds,
200 as bonds issued pursuant to section 10-56, as amended by this act,
201 provided the provisions of section 10-56, as amended by this act,
202 regarding limitations on the date of the first maturity, or on the
203 amount of any principal or on any principal and interest installments
204 on any bonds, shall not apply to refunding bonds issued under this
205 section that achieve net present value savings after comparing total
206 debt service payable on the refunding bonds to the total debt service
207 payable on the refunded bonds, after accounting for costs of issuance
208 and underwriters' discount. Upon placement in escrow of the proceeds
209 of such refunding bonds or other funds of the district in an amount
210 sufficient, together with such investment earnings thereon as are to be
211 retained in said escrow, to provide for the payment when due of the
212 principal of and interest on the bonds, notes or other obligations to be
213 paid, funded or refunded by such refunding bonds and other funds,
214 such bonds, notes or other obligations shall cease to be included in
215 computing the aggregate indebtedness of the district pursuant to
216 subsection (b) of section 10-56.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2007</i>	7-380c
Sec. 2	<i>July 1, 2007</i>	7-378a
Sec. 3	<i>July 1, 2007</i>	10-56(a)
Sec. 4	<i>July 1, 2007</i>	10-56(c)
Sec. 5	<i>July 1, 2007</i>	10-60a

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect	FY 08 \$	FY 09 \$
Various Municipalities	Savings	See Below	See Below

Explanation

The bill has no state fiscal impact because the state and municipalities bond separately for their respective shares of the construction costs of each new school building project.

The short term impact of allowing a town to issue school construction bonds for up to 30 years is that it reduces the amount of money that the town must budget annually for debt service payments on the bonds.

For towns choosing to issue school construction bonds for 30 years rather than 20 years, the long term impacts are:

(1) The town will pay more to finance its school construction projects because the bonds are issued for an additional 10 years,

(2) The town's debt ratio¹ will increase, which could lower its bond rating and increase the interest rate at which it is able to issue future debt,

(3) Since most towns have several schools that are on different construction cycles, issuing 30-year bonds for each project would lead

¹ A town's debt ratio compares its general obligation debt to a measure of value, such as real property valuations, personal income, general fund resources, or population.

to overlapping debt service payment for multiple projects.

The bill also increases the flexibility of regional school districts in issuing refunding bonds by exempting the bonds from certain requirements. This may result in debt service savings to the districts because it will be easier for them to refund higher interest rate bonds at a lower interest rate.

House “A” clarifies the language of the underlying bill and has no fiscal impact.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 7385 (as amended by House "A")*****AN ACT CONCERNING SCHOOL CONSTRUCTION BOND MATURITY.****SUMMARY:**

This bill allows municipalities and regional school districts to issue bonds for school construction projects with a maximum term of 30 rather than 20 years. The 30-year bonds are allowed only for projects for which the General Assembly authorized grant commitments on or after July 1, 1996, thus barring municipalities and regional school districts from refinancing earlier projects for a longer term (see BACKGROUND). The bill makes a conforming change by requiring annual repayments of any municipal or regional school district bond anticipation notes issued in conjunction with 30-year school project bonds to be at least 1/30th instead of 1/20th of the total project cost.

The bill also increases regional school districts' flexibility in issuing bonds to refinance outstanding debt ("refunding bonds").

*House Amendment "A" specifies that the project "authorization" refers to the General Assembly's authorization of state grant commitments according to the school construction law.

EFFECTIVE DATE: July 1, 2007

MUNICIPAL AND REGIONAL SCHOOL DISTRICT BONDS FOR SCHOOL BUILDING PROJECTS

Under the bill, municipalities may issue 30-year bonds for building, buying, extending, replacing, renovating, or making major alterations in a building to be used for a public school, and for acquiring and improving land for a public school. They cannot use 30-year bonds for

any project that the General Assembly authorized before July 1, 1996 or for buying equipment or making minor improvements to land or buildings for schools unless these activities are part of a larger school project.

The bill allows regional school districts to issue 30-year bonds to acquire land, prepare sites, and buy or equip buildings for school purposes. As is the case with municipalities, the bill allows a regional school district to issue 30-year bonds only for grant commitments the General Assembly authorized on or after July 1, 1996. By law, the General Assembly annually authorizes state grant commitments for school construction projects.

REGIONAL SCHOOL DISTRICT REFUNDING BONDS

The bill increases regional school districts' flexibility to issue refunding bonds. It does so by requiring total debt service for such bonds to constitute a net present value savings compared to the debt service on the bonds being refinanced, after accounting for the cost of issuance and the underwriters' discount.

Current law requires regional school district refunding bonds to meet the same requirements as the original bonds. These requirements are that:

1. they be payable either (a) in substantially equal annual installments of principal and interest or (b) so that no principal installment is more than 50% higher than any prior installment and
2. the first installment come due within three years of the issue date and the last installment by the end of the original bond term.

The law already allows this refunding bond flexibility for municipal refunding bonds.

BACKGROUND

School Project Financing for Projects Authorized On or After July 1, 1996

In 1997, the General Assembly changed the way the state funds state school construction grants starting with projects the General Assembly authorized for state grant commitments on or after July 1, 1996. For earlier projects, the state funded 20% to 80% of a school district's eligible costs for the project, including interest on local bonds issued to pay the local share of the projects. For more recent projects, the state and municipalities or regional school districts bond their respective shares of the project cost separately, thus eliminating the state's responsibility to issue state bonds to cover interest payable on municipal or regional school district bonds for school construction projects.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 41 Nay 12 (04/05/2007)